

Archstone Smith Valuation Update As of 8/23/07

Overview

In May 2007, a JV between Lehman Brothers and Tishman Speyers agreed to acquire Archstone Smith, for \$22.2 billion in debt and equity. Archstone-Smith is one of the largest U.S. multifamily REITs with asset concentrations in the best U.S. markets including Washington, D.C., New York City, San Francisco and Southern California.

Funding Commitment

Tishman and Lehman's private equity group were to put in permanent equity of \$250 million each. Debt and bridge equity financing for the deal was to be provided by Lehman & Banc of America (50:50). Subsequently, Barclays Bank was brought into the deal providing 25% of the financing. LB's current commitment is 47.7% while B of A has the remaining 27.3%.

The deal was initially scheduled to close in August, but was later pushed to October, 2007.

The following table summarizes the current funding structure.

	Projected Commitment					Projected Commitment with Asset Sales and Fannie Mae				
	Lehman 47.3%	Barclays 25%	B of A 27.7%	Tishman	Total	Lehman 47.3%	Barclays 25%	B of A 27.7%	Tishman	Total
Fixed Rate Loan	2,859	1,511	1,674		6,045	-	-	-		-
Floating Rate Loan	1,481	783	868		3,132	865	457	506		1,828
Term Loan	2,199	1,163	1,288		4,650	1,544	816	904		3,265
Mezzanine	431	228	252		911	431	228	252		911
Development Loan	237	125	139		500	237	125	139		500
Existing Debt Assumed	609	322	356		1,287	609	322	356		1,287
Preferred Units Issued	634	335	371		1,340	634	335	371		1,340
Total Debt	8,450	4,466	4,949	-	17,865	4,319	2,283	2,529	-	9,131
Bridge Equity	2,176	1,150	1,274		4,600	2,176	1,150	1,274		4,600
Permanent Equity*	250			250	500	250			250	500
Total	10,876	5,616	6,223	250	22,965	6,745	3,433	3,803	250	14,231

* Private Equity

Syndication

As of 8/23/07, the following events have occurred:

1. A term sheet is signed to sell \$7.35 billion of senior debt (60% LTV) to Fannie Mae. The debt includes a \$1.30 billion floating rate, \$3.20 billion of 5-year fixed rate and \$2.85 billion of 10-year fixed rate loans. These loans will be secured by a total of 106 properties.
2. Term sheet is under negotiation with Freddie Mac for a 60% LTV \$1.83 billion floating rate loan secured by 32 properties.
3. Purchase and sale agreement (PSA) had been executed for the sale of 16 properties at \$1.54 billion. The sale is expected to close by October 5, 2005 at the same time as overall deal. Purchases had put a \$53.7 million hard money deposit.
4. An agreement for syndication of \$50mn of bridge equity has been executed & \$250 million is soft circled.

Valuation

Lehman's portion of the commitment needs to be marked to market. To that end, product control reviewed the risks factors and mitigants that affect the valuation of this commitment. Below are the risk mitigants to any valuation issues:

1. Term sheet is either signed or is under negotiation for the syndication of most of the senior debt at favorable terms.
2. Hedges are placed for interest rate movements between now and closing
3. Marketing of the term loan has begun. There is obviously a syndication risk associated with the term loan. However, the debt has an absolute flex in pricing, i.e., we have the ability to adjust the spreads to obtain a level of pricing that will enable us to syndicate.
4. Syndication of bridge equity. Only a minimal amount has been syndicated so far. However, based on the spreads the senior debt is syndicated or being marketed at, the bridge equity is expected to generate 13 ~ 14% IRR, net of bridge equity fees. The business believes this is in line with current market yields for similar investments. Syndication risk is also mitigated by the quality of the collateral pool and the markets they are located in. Despite this, syndication could still be difficult given current investor appetite for such products. The 4% bridge equity fee will be marked into the position, i.e., the bridge equity will initially be marked at 96.

Conclusion

Given the collateral quality and the favorable spreads obtained in syndicating the senior debt to Fannie Mae, we believe no mark adjustments are warranted at this time.